Milwaukee County Board of Supervisors

Supervisor Theo Lipscomb, Sr., District 1

For Immediate Release February 17, 2015
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Latest Pension Fix Explained

Supervisor Theo Lipscomb, Sr., issued the following statement regarding the latest pension fix:

"If you've been reading the daily paper or listening to talk radio lately you might think Milwaukee County is embroiled in a new pension scandal. Sensational stories tell of a handful of retirees with generous pensions but fail to explain the reality of more than 200 retirees with modest pensions who did nothing wrong - except maybe to follow the directions and advice provided by their employer. These people were allowed to buy pension credit under an ordinance with origins dating to the 1950s, the pension office told them how much to pay and when, they paid the money as directed and their pensions were adjusted for the credit they purchased. The problem is that the pension office made a series of administrative errors and the effect is that some of these purchases did not comply with the rules that the pension office is charged with following. Now, decades later, County Executive Abele is leading a charge to nullify those retirement contracts. The Milwaukee County Board followed the recommendation of the Milwaukee County Pension Board in fixing the problem with a series of retroactive ordinance changes. The Board also definitively ended the program going forward. On Tuesday, the Board on an 11-4 vote, overrode a veto by the Executive that would have blocked all of the ordinance changes.

"Many people erroneously believe that these pension issues are like a bank error, but these weren't simple clerical or calculation errors, and the remedy also is not so simple. For more than 40 percent of these retirees, the only error in the purchase of their pension credit is that they used money from their "457" deferred compensation plan to make the purchase. It seems simple enough; they took money they had set aside for retirement and transferred it into another retirement plan with their employer. The pension office told them they could do it and they relied on that advice. You can trust your employer right?

"Unfortunately, the use of 457 money was not permissible under the pension plan rules. Other errors involved limitations on the amount of credit purchased as a percentage of salary or the untimely processing of the transactions. In all of these cases, however, the pension office processed the transactions anyway and credited the accounts. Now decades later, after most of these people have retired, the County Executive believes hundreds of these retirement contracts should be voided.

"The result of breaking these contracts is that about 12 people would lose their pension altogether (because some of the credit they purchased counted toward their vesting period), most would have their pension cut by more than 10 percent, and one in four would lose more than 20 percent of their pension payment. But it saves money, right? Well, it is true that anytime you cut benefits you should expect to save money, but there are also significant legal risks in this case because benefits cannot be cut after the fact and the statute of limitations is only 6 years. We are currently involved in three different legal actions including a proposed class action lawsuit as a result. Thankfully, because these benefits were purchased and accounted for as legitimate, there is no additional actuarial cost of fixing the problem with retroactive ordinance changes - zero!

"I absolutely understand why people are upset. They are tired of pension problems and the high costs associated with actions of the past. This just reads like one more chapter in that sordid story. Trust me, I don't like cleaning up a mess that I didn't make, but regularly that is my job. In my time on the Board, future benefits have been reduced, the backdrop was capped (I authored that change), and now these errors are fixed.

“On a positive note, pension fund returns in recent years have been strong and so far pension obligation bonds that were used to shore up the fund in 2009 are working as designed (I've always been skeptical of that scheme, but I would like to be proven wrong over the next 20 years).”

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